

BALTIMORE COUNTY

ECONOMIC INDICATORS AND REVENUE REPORT

2000 First Quarter
January 1 to March 31, 2000



Office of the County Auditor
July 11, 2000

**BALTIMORE COUNTY
ECONOMIC INDICATORS REPORT**

2000 FIRST QUARTER

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| <u>ECONOMIC INDICATORS SUMMARY</u> | 1 |
| <u>EMPLOYMENT</u> | |
| Employment | 2 |
| Unemployment | 3 |
| <u>HOUSING</u> | |
| Existing-Home Sales | 4 |
| Pending Existing-Home Sales | 5 |
| Residential and Non-Residential Building Permit Activity | 6-7 |
| <u>MORTGAGE AND OTHER INTEREST RATES</u> | 8-11 |
| <u>INFLATION</u> | 12 |
| <u>SPENDING</u> | 13-14 |
| <u>REVENUE REPORT</u> | 15-18 |

TABLE 1 - General Fund Revenues

TABLE 2 - Monthly and Year-to-Date General Fund Revenues - May 2000

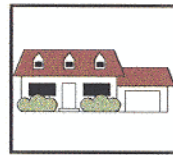
TABLE 3 - Fiscal Year 1999 Actual and 2000 and 2001 Revenue Forecast

SUMMARY OF ECONOMIC INDICATORS

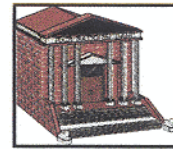
Baltimore County economic indicators for the first quarter of 2000 suggest a continued healthy economy. County resident employment continues to increase, the unemployment rate continues to fall, and the housing/construction markets remain strong. ***The strength of the County's economy in the first quarter, coupled with a favorable outlook for the U.S. and Maryland economies, suggest continued growth in 2000.***



Employment among County residents rose by 1,803 persons, or by 0.5%, from 1999:Q1 to 2000:Q1, while the County **labor force** contracted by 641 persons, or by 0.2%. The number of **unemployed** and the **unemployment rate** continued to show declines over the 1999:Q1 to 2000:Q1 period (pages 2-3).



Settlements on existing homes as well as **pending sales** fell by 10.0% and 8.5%, respectively, over the 1999:Q1 to 2000:Q1 period. For the full year 1999, **residential** building permit activity was up slightly in terms of value but down in the number of units. **Non-residential** building permit activity was up sharply reflecting several large new construction projects in 1999:Q4, while additions, alterations, and repairs remained strong, but down for the year (pages 4-7).



Mortgage and other interest rates continued to move upward in the first quarter. Due to inflationary fears, the Federal Reserve continues to push interest rates higher which will likely slow both the real estate and construction markets over the coming quarters (pages 8-11).



Regional and U.S. inflation rates were up by 3.7% and 3.4%, respectively, from March 1999 to March 2000 (page 11). **U.S. economic growth** expanded at an annual rate of 5.5% in the first quarter of 2000, and was up by over 4% for three consecutive years, 1997 to 1999 (pages 12-14).



Consumer Confidence fell in June but the index still remains above the lowest levels recorded in March/April. Overall, consumers seem poised to continue to support the current economic expansion, which set its own longevity record in March 2000 (page 13).



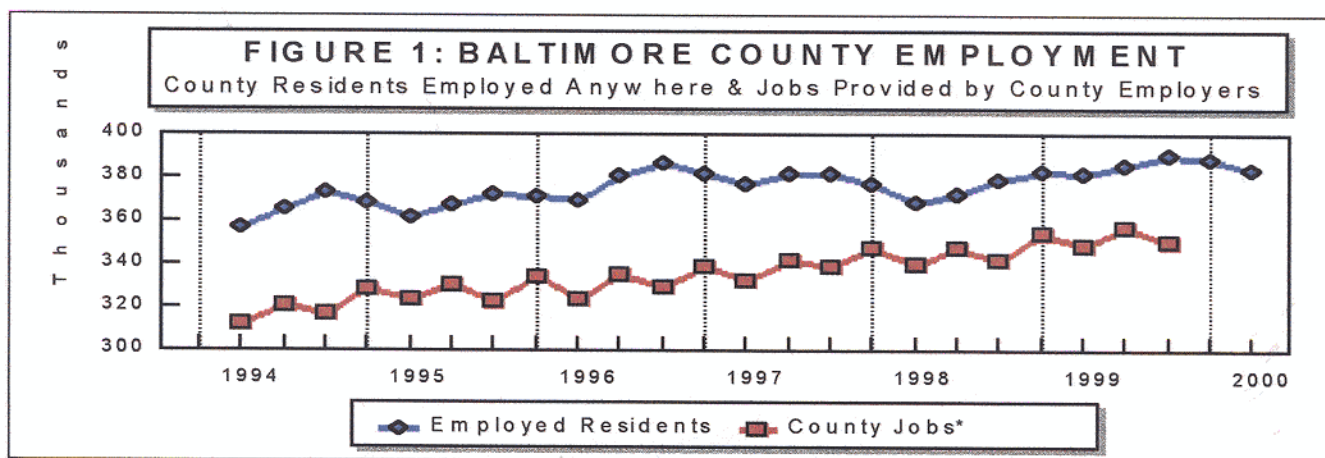
County Revenues through May total \$1,010 million, 5.1% ahead of last year. Revenues appear strong all around as **property tax** revenues are ahead of the FY 99 pace by 4.0%, **income tax** revenues are 5.4% ahead, and **all other** revenues are up by 7.9%. For all of FY 2000, revenues are forecast to grow by 4.7% and for FY 2001, 2.8% (pages 15-18).

ECONOMIC INDICATORS

EMPLOYMENT



Figure 1 shows quarterly employment levels for both County residents and County employers -- the former measuring the number of County residents employed, while the latter measuring the number of jobs supplied by County employers. Year-over-year comparisons show a healthy County labor market, but one in which the labor supply is rapidly being depleted. From 1999:Q1 to 2000:Q1, resident employment showed a 0.5% or 1,803 person gain. This is in sharp contrast with the 13,253 person, or 3.6%, increase in resident employment a year earlier. The slowing rate of employment growth probably reflects the low availability of potential workers as the number of County unemployed residents reached a record first quarter low of 13,575 (historical data are from 1983). County jobs over the 1998:Q3 to 1999:Q3 period rose by a solid 2.5% or 8,586 jobs (Figure 1).

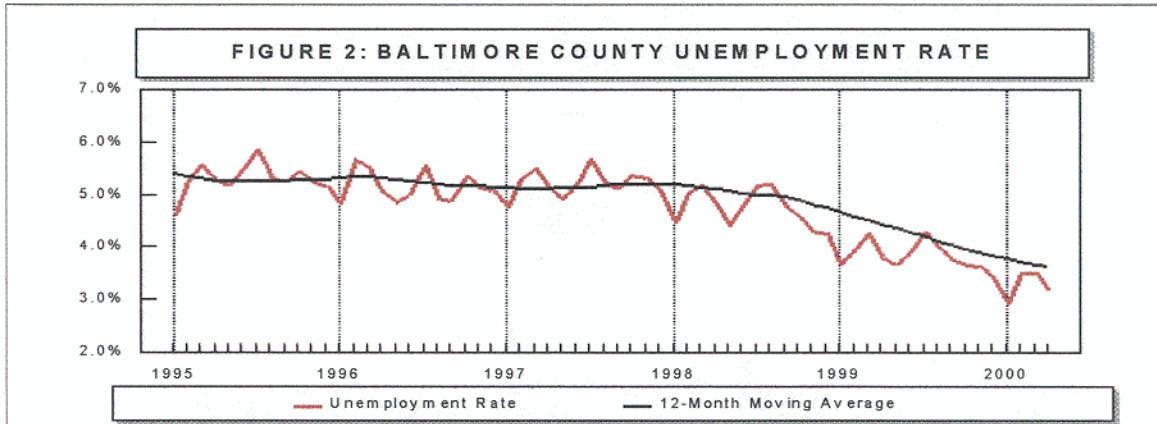


* County jobs data lags resident employment data by several quarters.

While the County employment picture is bright, it continues to somewhat lag State employment. From 1999:Q1 to 2000:Q1, State resident employment was up 1.3%, while the number of jobs in Maryland increased by 3.6% over the 1998:Q3 to 1999:Q3 period.

The County's total resident employment during the first quarter of 2000 averaged 383,542 persons -- the highest first quarter reading on record (1999:Q3 had the highest resident employment reading on record at 390,086 persons). Reflecting continued year-over-year employment growth, the number of **unemployed** County residents dropped by 2,444 persons, or by 15.3%, over the 1999:1 to 2000:1 period. Over the last two years, the number of unemployed County residents dropped by an impressive 5,923 persons or by 30.4%. In 2000:Q1, only 13,575 County residents, out of a labor force of 397,117 remain unemployed. This number of unemployed residents in 2000:Q1 is the lowest first quarter reading on record. Further reductions in the number of unemployed County resident might be difficult to achieve given the County's low current unemployment rate of 3.4%. There is a "natural rate of unemployment" thought to be around 3-4% of the labor force. This natural rate means that there will always be individuals counted as unemployed due to a number of factors including labor force transition, seasonal factors, and new labor force entrants, etc.

Baltimore County's total **unemployment rate** averaged 3.4% in 2000:Q1 -- down from the 4.0% and 4.9% average in the first quarter of 1999 and 1998, respectively (Figure 2). The decline of 1.5 percentage points in the County's unemployment rate over the last two years reflects the addition of over 15,000 employed residents, while the labor force increased by 9,133 persons. The steady decline in the County's unemployment rate is the result of the recent U.S., Maryland and County economic performance. Economic growth in the U.S. has averaged 4.0+% over the last three years and continued at a 5.5% annual rate in 2000:Q1. According to the Regional Economic Studies Institute (RESI), the State has recorded even stronger growth, versus the U.S. average, over the last several years.

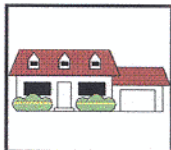


During the 1990's, the County's unemployment rate has generally been higher than the State's, but that gap has narrowed in recent years. In 2000:Q1, the State's unemployment rate averaged 3.3% compared to the County's 3.4% rate. In March, the State and County recorded unemployment rates of 3.0% and 3.2%, respectively, both down by over one half a percentage point from March 1999. For comparison, the current (May) U.S. unemployment rate was 4.1% -- up slightly from April's 30+-year low rate of 3.9%.

March 2000 unemployment rates varied considerably throughout Maryland. Of Maryland's 24 jurisdictions (including Baltimore City), unemployment rates varied from below 2% in Howard, Montgomery and Frederick counties, to 12.1% in Worcester County. Baltimore City's unemployment rate went from being the highest at 6.9% in September, 1999 to 6.1% in March, 2000. Currently, four jurisdictions have an unemployment rate greater than Baltimore City. Baltimore County ranked 14th Statewide and for the Baltimore Metropolitan Area (BMA), the County's unemployment rate of 3.2% ranked second highest and only slightly below the BMA March average of 3.4%, which is strongly influenced by Baltimore City. In fact, if the City's employment data were excluded, the March 2000 BMA unemployment rate would have been only 2.6%. Thus, while Baltimore County's economy and labor markets are performing well, they lag the regional performance, after excluding the City's data.

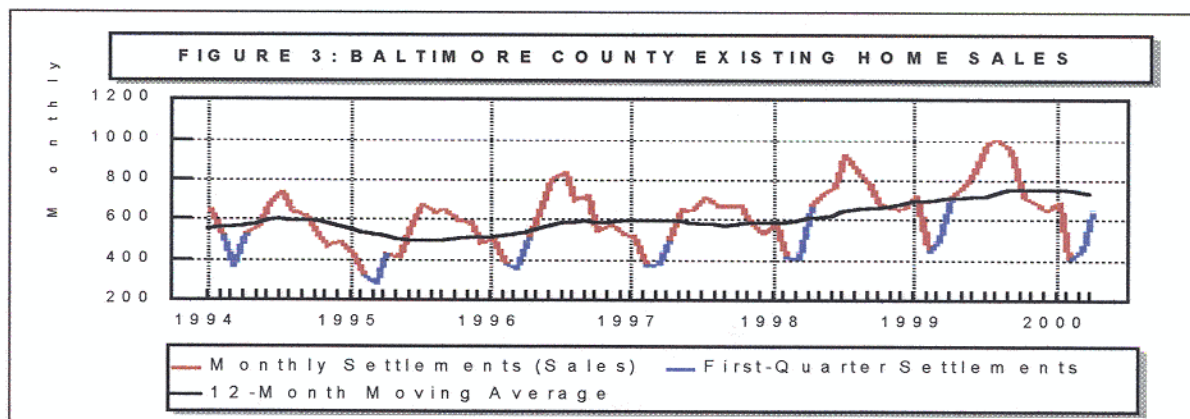
RESI's current projections for 2000 indicate that total employment will increase by 2.0% in the U.S. as a whole, and by 1.5% and 2.0% in Baltimore County and Maryland, respectively. While the employment projection for Baltimore County may seem modest by recent standards, if it materializes, over 5,000 additional County residents will find employment in 2000. That may be a challenge given the small number of County residents unemployed (12,622 in March 2000) and the slight contraction in the County's labor force over the last year.

HOUSING



Existing-home sales data for Baltimore County over the 1994 to 2000:Q1 period are presented in Figure 3 below. Annual existing home sales in the County have generally been trending upward over the last eight years. Over the 1992-95 period, County home sales averaged around 6,550 units per year. In 1996-97, as the County's economy began to show new signs of life, and as mortgage rates slipped, existing home sales averaged around 7,100 units per year. In 1998-99,

County home sales accelerated as County employment grew and capital gains became a household word. Sales in 1998 totaled 8,291 units and in 1999 set a record at 9,048 units -- around 40% above the 1992-95 average.



For the first ten months of 1999, County existing home sales exceeded the comparable 1998 level. However, in November and December and for the first three months of 2000, existing home sales fell below year ago levels. County existing home sales in 2000:Q1 were 10.0% below the 1999:Q1 period -- 1,514 units versus 1,683 units. This first quarter to first quarter drop reflects two factors -- first, rising mortgage rates with the 30-year conventional mortgage rate in 2000:Q1 averaging 8.3% -- 140 basis points ahead of the 1999:Q1 average of 6.9%; and, second, the inventory of available existing homes for sale in the County in March 2000 was at the lowest in comparable months in the data series history (1992 to present) and 23.4% below the March 1999 level. These two conditions are likely to persist and will be affecting future County existing home sales.

| | Existing Home Sales | | 30-Yr Conventional Mortgage Rate | |
|------|---------------------|---------------|----------------------------------|-----------------|
| | Annual | First Quarter | Annual | First Qtr. Avg. |
| 1993 | 6,632 | 1,227 | 7.3 | 7.7 |
| 1994 | 6,632 | 1,425 | 8.4 | 7.3 |
| 1995 | 6,185 | 1,042 | 8.0 | 8.8 |
| 1996 | 7,144 | 1,257 | 7.8 | 7.2 |
| 1997 | 7,040 | 1,266 | 7.6 | 7.8 |
| 1998 | 8,291 | 1,504 | 6.9 | 7.1 |
| 1999 | 9,137 | 1,683 | 7.4 | 6.9 |
| 2000 | n.a. | 1,514 | n.a. | 8.3 |

Pending existing-home sales within the County are presented in Figure 4 below. On a 2000:Q1 to 1999:Q1 basis, pending home sales were down by 8.5% -- however, they still remain at historically high levels. The decline in pending sales probably reflects the recent increase in mortgage interest rates and the low inventory level of homes for sale. Traditionally, a small increase in mortgage rates will not have an immediate impact on home sales, but the 30-year conventional mortgage rate has been creeping up over the last 12 months, and over time rising mortgage rates dissuade marginal buyers. In 1999:Q1, the 30-year conventional mortgage rate averaged 6.9%; in 1999:Q2, 7.2%; in 1999:Q3, 7.8%; in 1999:Q4, 7.8%; and in 2000:Q1, 8.3%. The 140 basis point increase in the conventional mortgage rate, coupled with the increase of 4.0% in the average selling price of a County home, over the 1999:Q1 to 2000:Q1 period, has added \$174 (a 20.1% increase) to the monthly principal and interest payment for the averaged price County home, financed with a 30-year fixed rate mortgage, with a 10% down payment.

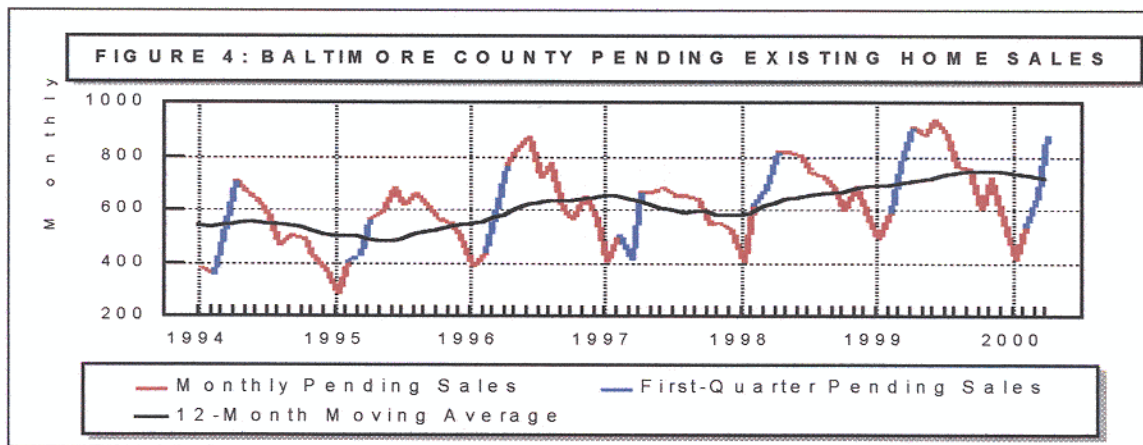
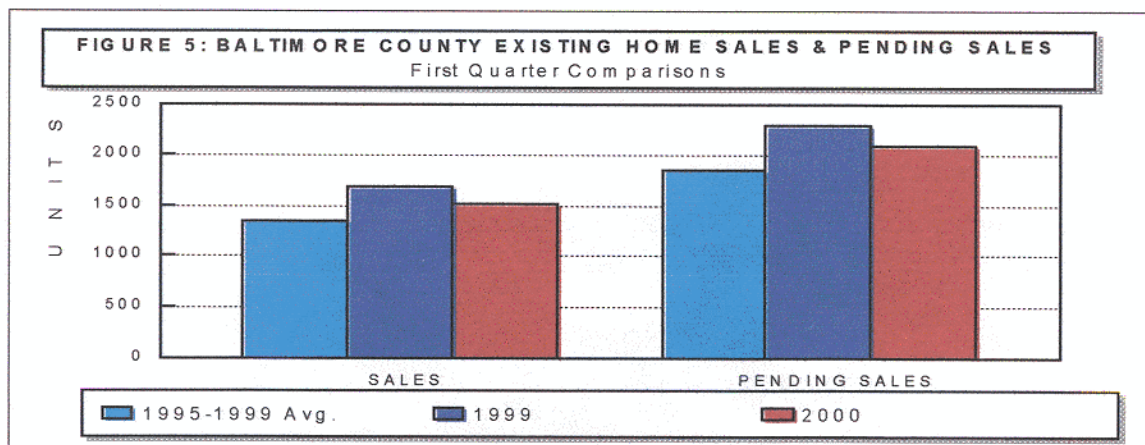
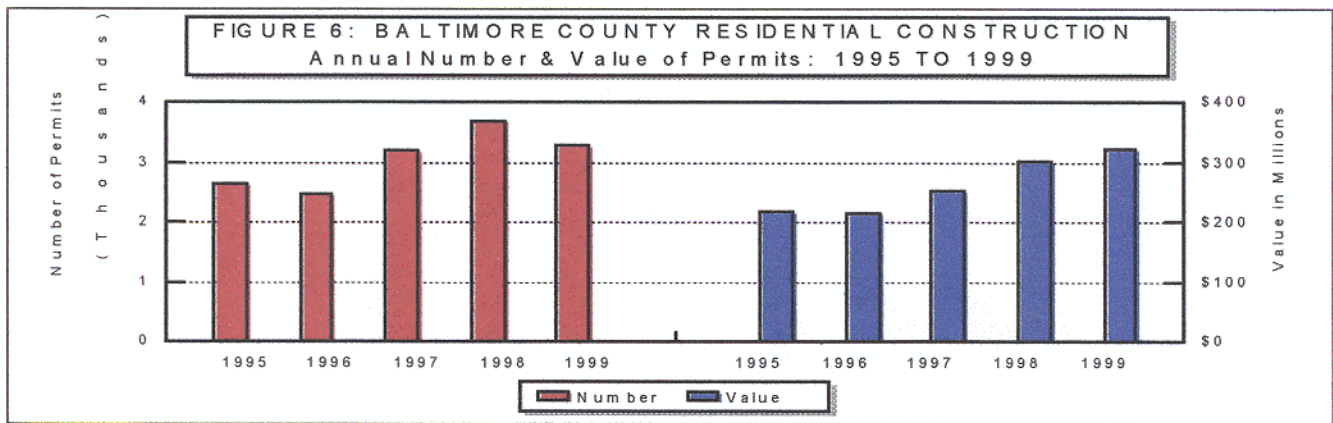


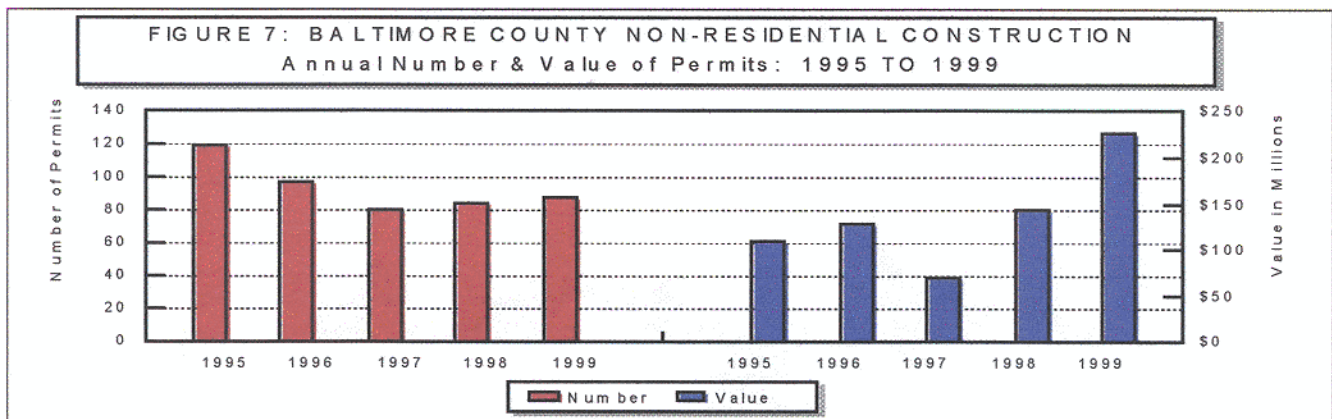
Figure 5 shows a longer term perspective of the current strength of the Baltimore County residential housing market. Despite the recent slowing in existing home sales and pending sales, the County's overall housing market is strong and will likely continue strong, albeit at a slightly lower level in 2000 and 2001 versus a record setting year in 1999. While 2000:Q1 existing home sales and pending sales are down from the corresponding 1999 period, 2000:Q1 sales and pending sales are still ahead of the 1995-99 first quarter average by 12.2% and 13.3%, respectively.



Baltimore County **residential building permit activity** continued at strong levels over the course of 1999. Figure 6 shows the number and value of County residential building permits over the full year 1995-1999 period. The number and value of permits for the 1995-1996 period was relatively flat but in 1997, both the number and value of residential building permits began to rise, especially in the later part of the year. That pattern continued in 1998. For all of 1999 the **number of residential building permits was down 11.1%** -- with multi-family units down 33.3% and single family units up 1.1%. Rather than indicating a weakness in multi-family units, the decline in 1999 reflects the extraordinary number of multi-family permits issued for all of 1998, and especially in 1998:Q4. Regardless of the declining number of new residential building permits issued in 1999, the **value** of County residential building permits rose by 6.5% in 1999. This is consistent with national trends that indicate larger single family homes with more amenities are being built.

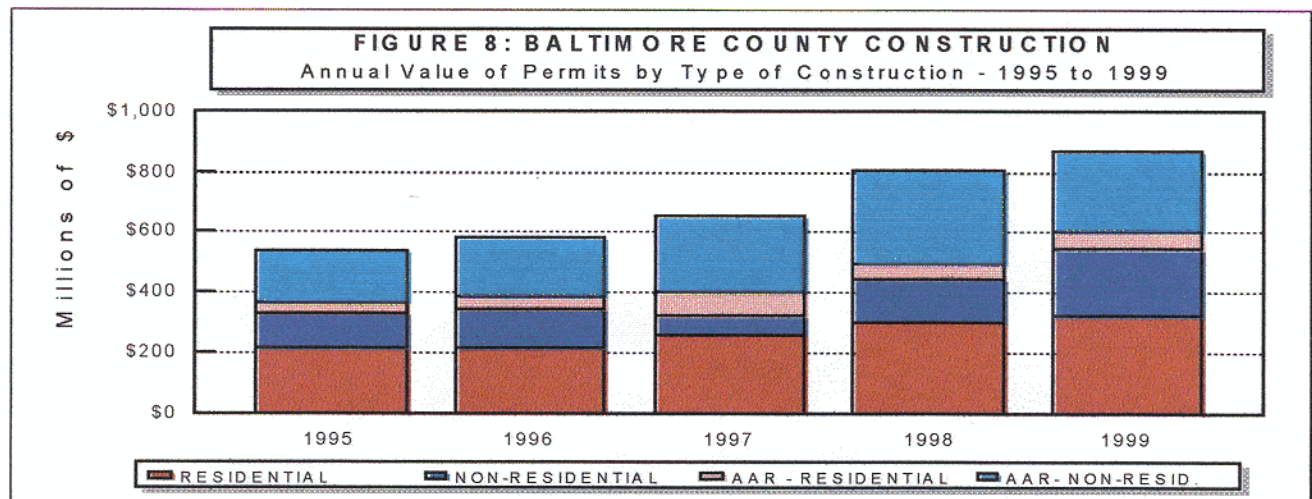


New **non-residential building activity** (commercial and/or industrial, private and/or public) provided a strong plus to the County's economy in 1999 (Figure 7). In 1999, the value of non-residential construction building permits issued in the County was \$225.3 million, up 57.9% over a healthy 1998 and by over 100% compared to the 1995-1997 average. New non-residential building activity is dependent on specific projects that can make this economic data set volatile. For example, in November and December, two new projects, a senior assisted living facility in Cockeysville-Timonium, and the Allison Transmission Plant in Perry Hall-White Marsh, were authorized for \$45 million each -- a total of \$90 million. In the absence of those projects, new **non-residential building activity** in the County in 1999 would have been below the 1998 level. A few additional significant fourth quarter projects include: a \$5,000,000 assisted living facility in Rossville, a \$3,000,000 assisted living facility in Perry Hall, a \$2,400,000 domiciliary care facility in Ruxton, and a \$2,000,000 supermarket in Essex.

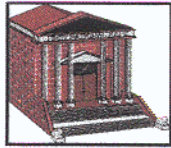


The **total** value of all construction permits issued in Baltimore County in 1999 was \$873.1 million – up 8.0% and 36.5%, respectively, over 1998 and 1997 (Figure 8). A key component in overall construction permit activity, **additions, alterations, and repairs (AAR)** accounted for \$326.4 million or 37.4% of the total construction value in the County in 1999, well below the 43.7% average in the last five years. AAR, as a percent of total construction activity, over the last five years ranged from a high of 51.8% in 1997 to a low of 37.4% in 1999. The lower percentage for AAR in 1999 reflects a 10.4% decline in overall AAR activity as well as the surge in 1999:Q4 non-residential building permit activity. Despite the 1999 decline in AAR permits, AAR activity in 1999 was still nearly 11% above the 1995-1999 average. For all of 1999, all County construction components, with the exception of AAR, showed gains over the comparable 1998 period. A few of the major AAR projects approved in 1999:Q4 included:

| <u>Value</u> | <u>Facility</u> | <u>Area</u> |
|--------------|----------------------------------|---------------------------|
| 2.3 million | Fire Line for an Office Building | Cockeysville-Timonium |
| 2.0 million | Industrial Addition | Middle River |
| 1.6 million | Addition, Steel Coil Storage | NorthPoint |
| 1.0 million | Addition to Warehouse/Office | Reisterstown-Owings Mills |



MORTGAGE AND OTHER INTEREST RATES



The Federal Reserve's Federal Open Market Committee (FOMC) on May 16 made another preemptive strike against inflation by raising a key interest rate (federal funds rate) by a bigger- than-usual 50 basis points to 6.5%. This is the sixth time that the FOMC increased short-term interest rates since June 30, 1999 -- but all of the other increases have been in increments of 25 basis points. Aside from the May 16 increase, the federal funds rate was raised on June 30, August 24, November 16, 1999, February 2 and March 21. The federal funds rate is a main variable that major financial institutions use in setting their prime business lending rate, consumer loan rates, and to a lesser extent, long-term mortgage lending rates. In fact, immediately after the FOMC announcement, several major commercial banks raised their prime lending rate from 9.0% to 9.5%.

While the FOMC left interest rates unchanged at their June 28 meeting, they did indicate that the latest round of interest rate increases might not be the last. But some economists see May's 50 basis point increase in the federal funds rate as a point of concern. No one knows how high interest rates will have to go before the economy slows to the 3.0-3.5% growth rate that the FOMC would like to engineer. Changes in the aggregate economy, as a result of change in monetary policy, are variable in length and uncertain in magnitude. Thus, if the FOMC pushes too hard and moves the economy into a contraction, negative consequences abound, from falling local tax receipts to an increase in the unemployment rate and all of the negative social connotations that carries.

| | <u>Interest Rates</u> | | | |
|---------------|----------------------------------|----------------------------------|--|---|
| | <u>90-Day Treasury Bills</u> | <u>10-Yr. Treasury Bonds</u> | <u>30-Yr. Conven. Mortgage</u> | <u>30-Yr. Mortgage less 10-Yr. T.B.</u> |
| 1998: Q1 | 5.19% | 5.59% | 7.05% | 1.46% |
| 1998: Q2 | 5.11 | 5.60 | 7.09 | 1.49 |
| 1998: Q3 | 4.96 | 5.20 | 6.86 | 1.66 |
| 1998: Q4 | 4.37 | 4.67 | 6.77 | 2.10 |
| 1999: Q1 | 4.53 | 4.98 | 6.88 | 1.90 |
| 1999: Q2 | 4.59 | 5.54 | 7.21 | 1.67 |
| 1999: Q3 | 4.79 | 5.88 | 7.80 | 1.92 |
| 1999: Q4 | 5.20 | 6.14 | 7.83 | 1.60 |
| 2000: Q1 | 5.70 | 6.48 | 8.26 | 1.78 |
| June 30, 2000 | 5.84 | 6.08 | 8.22 | 2.14 |

Source: Federal Reserve Board

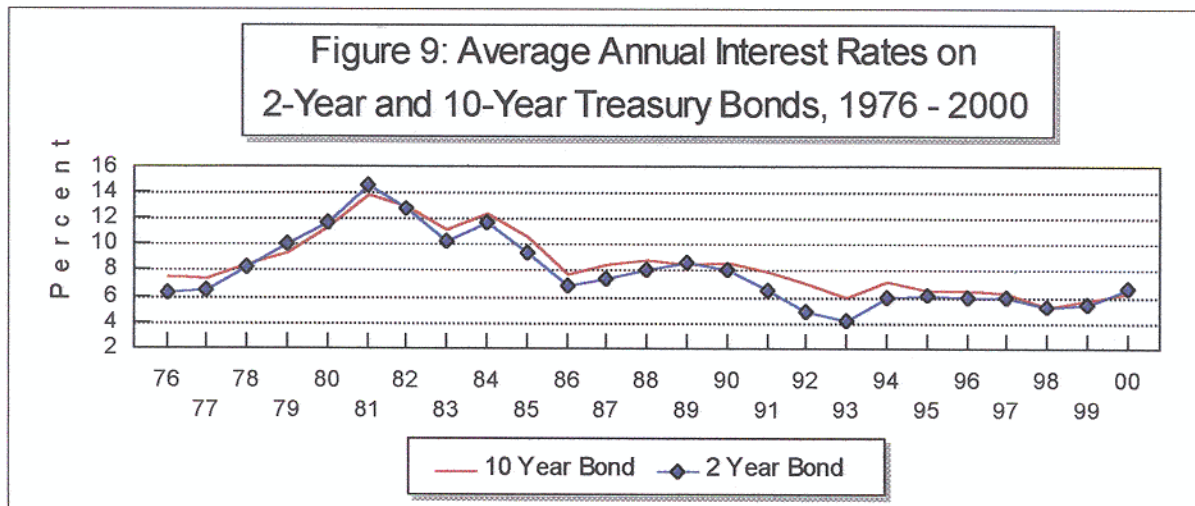
The interest rate table pin-points the magnitude of the recent interest rate increase. Short-term 90-Day Treasury Bills in the first quarter of 2000 averaged 5.70%, up 50 basis points from the fourth quarter, and 117 basis points above the first quarter of 1999. As of June 30, the benchmark 90-day Treasury Bill rate was 5.84% -- up another 14 basis points from the 2000 first quarter average. Compared to the 90-day Treasury Bill, the rise in the 10-year Treasury Bond

was somewhat steeper over the last full year (1999:Q1 to 2000:Q1), but from the 2000:Q1 average to present, 10-year Treasury Bond rates have fallen 40 basis points while short-term rates have moved up slightly.

The Inverted Yield Curve -- A Sign of Trouble Ahead?

One troubling aspect of the recent run-up in interest rates is the pattern of change interest rates have taken. Normally, long-term interest rates are greater than short-term interest rates (normal yield curve), since investors demand greater compensation for the risk incurred in owning longer term securities. During infrequent periods when short-term interest rates exceed long-term interest rates (inverted yield curve), the market is indicating that debt issuers expect long-term interest rates to fall. Falling long-term interest rates usually occur when: 1) the economy is expected to contract or is contracting, or its growth rate is expected to slow or is slowing considerably, or 2) inflation expectations are declining. A May 2000 survey by the Federal Reserve Bank of Philadelphia indicates that inflation expectations are currently rising, not falling. Consequently, the current interest rate structure implies the economy will be slowing and/or contracting. The implications for County revenues parallel the U. S. economy's prospects.

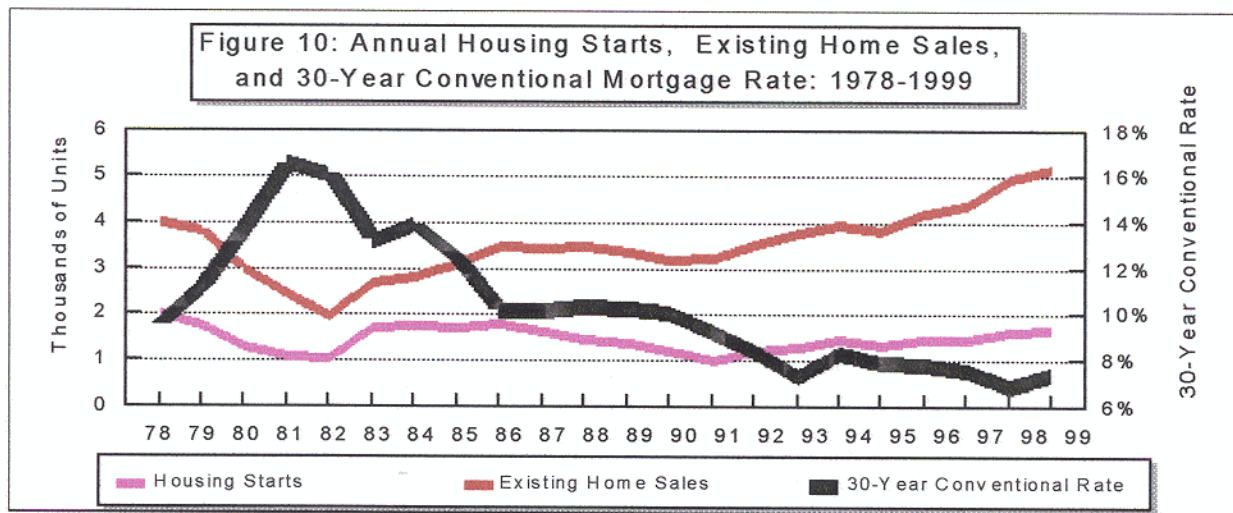
Figure 9 below shows the annual average interest rate on the 2-year and 10-year Treasury Bonds, from 1976 to 1999 and for the average of 2000 through June. Data show that, over this period, the yield curve inverted twice and stayed inverted for a year or more, and twice the economy sank into a recession. The yield curve first inverted (long-term rates > short-term) in 1979 and remained inverted during 1980 and 1981. From January 1980 to November 1992, a 34 month period, the U. S. economy was in recession for 22 months. Likewise, the yield curve inverted in 1989 and the U.S. economy witnessed a contraction from July 1990 to March 1991. The 2-year versus 10-year Treasury yield curve inverted in February 2000 and has remained inverted through June.



While no one is currently forecasting recession in 2001, markets seem to be betting that the FOMC will engineer a slow down from the economy's current 5+% growth rate to a more sustainable, lower inflationary, growth rate of around 3%. However, history teaches that the timing and magnitude of the impact of changing interest rates, especially rising rates, on the economy is uncertain. In a rising interest environment, even a small exogenous shock to the economy could cause significant problems, very much like in 1990/1991. Regardless, if the FOMC is successful and engineers a "soft landing" for the economy, i.e., slower growth without

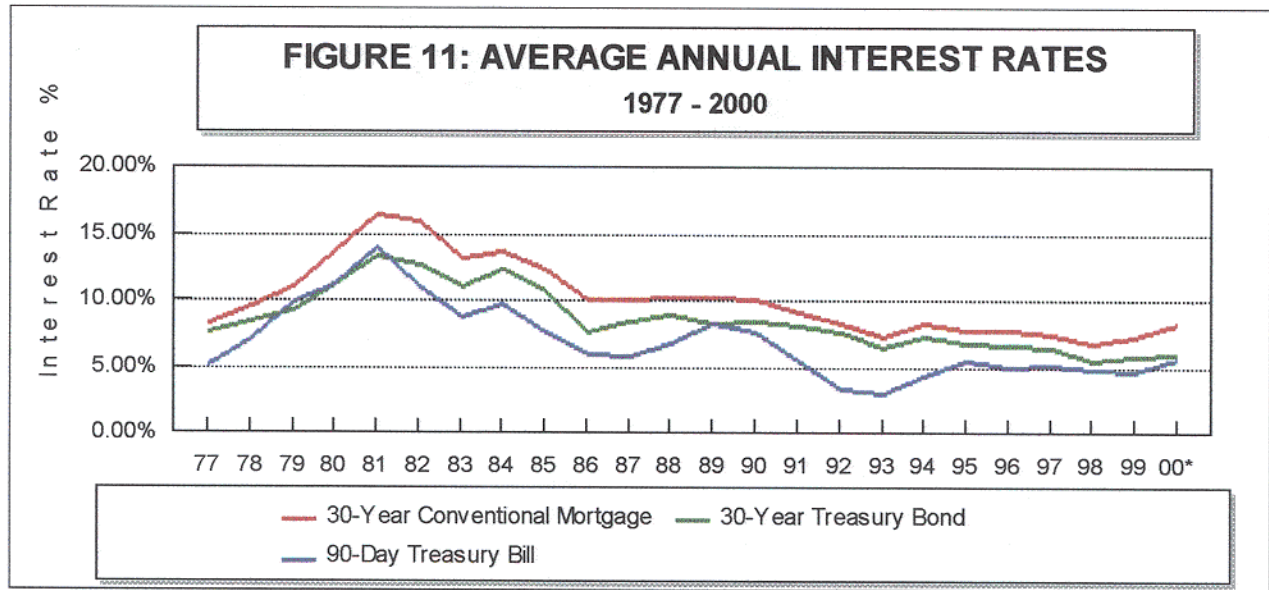
a recession, it is important to remember that as the U.S. economy slows, the growth rate in County revenues will also slow. On the other hand, if the FOMC goes too far with interest rate increases and the U. S. economy contracts, County revenues could also contract. Thus, County revenue forecasting for FY 2001 and FY 2002 could be a greater than normal challenge.

Nationally, 30-year fixed-rate mortgages reached a three-decade low of 6.71% in October 1998 and, for the fourth quarter of 1998 and the first quarter of 1999, averaged below 7%, both nationally and in the Baltimore Metropolitan Area. However, during 1999 mortgage rates began to move-up and continued that trend in 2000. In 1999:Q1, the average 30-year conventional mortgage rate was 6.88%. By 2000:Q1, the rate moved up by 138 basis points, to 8.26%, the first time since 1996:Q3 that the 30-year conventional mortgage rate exceeded eight percent. On June 30, the 30-year conventional mortgage rate stood at 8.22%. While in the long-term, housing activity is largely driven by demographics, Figure 10, clearly shows the short-term relationship between new housing starts, existing home sales and the 30-year conventional mortgage rate.



During 1998 and 1999, existing home sales were at record levels and new housing starts were at an 11 year high. The 30-year conventional mortgage rate averaged under 7.25%, the lowest reading since statistics were first kept on the rate in 1971. However, current higher mortgage rates, if they continue, will likely slow new construction and the residential resale market in the coming quarters. Nationally, through the first quarter of 2000, existing home sales were down by around 10%, while new home sales and housing starts were up slightly.

Current Baltimore County data still show a strong, but slowing, residential resale market and solid performance in most of the construction categories. Sales of existing residential housing units fell by 10% from 1999:Q1 to 2000:Q1 and some weakness is developing in the additions, alterations and repair markets. Generally, there is a lag before higher mortgage rates significantly effect the residential housing and non-residential construction markets. But a slower housing market is inevitable and it will have two significant impacts on the County's economy. First, a slower housing market means fewer sales and lower capital gains, and hence reduced spending power that fuels the economy. According to Federal Reserve Chairman Alan Greenspan, the effect of rising house prices on consumer spending, which represents about two thirds of the U.S. economy, is bigger than that of rising stock prices. Second, fewer residential resales would cause County recordation and title transfer taxes to decline. However, a modest slowing in real estate transaction related taxes are currently incorporated in the County's FY 2001 revenue estimates.



*00 (Through June)

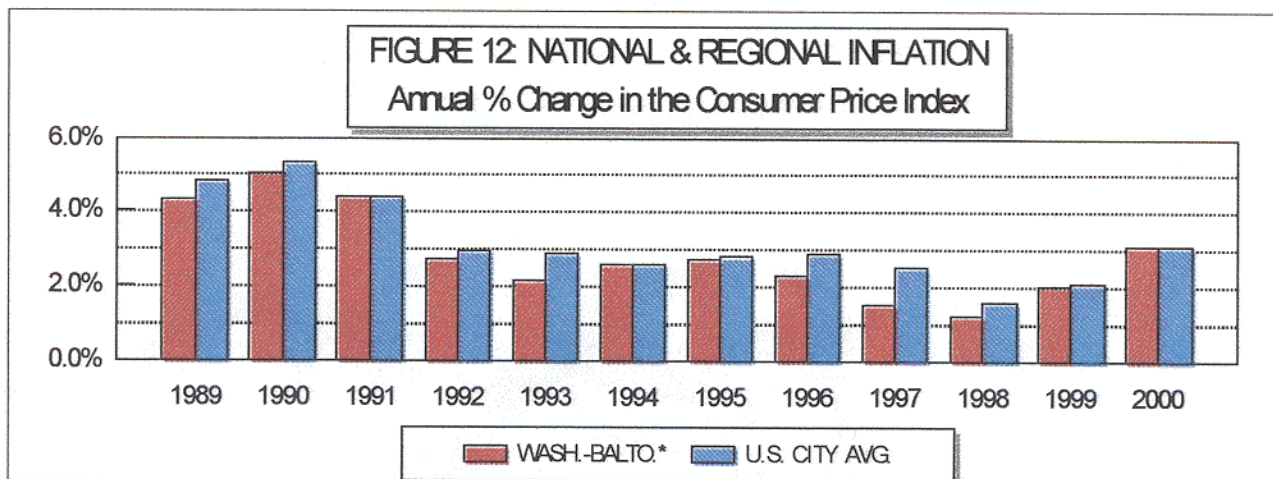
INFLATION



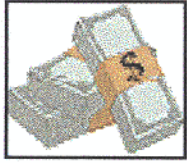
The Consumer Price Index (CPI) for the Washington-Baltimore Consolidated Metropolitan Statistical Area over the March 1999 to March 2000 period, increased by 3.7%, a little ahead of the U.S. inflation rate of 3.4% over the same period. CPI increases of this magnitude can no longer be described as modest. The March 1999 to March 2000 CPI increase is running well ahead of the comparable 1999 and 1998 periods when the CPI, at the national level, was up 1.7% and 1.4%, respectively. Current inflation rates are at levels experienced over most of the 1990's, but well below 1980's levels. Moreover, current inflation rates are beginning to get serious attention of policy makers as the FOMC has increased interest rates six times since June 1999.

Financial markets respond quickly to inflationary trends. Over the last few years -- 1997, 1998 and 1999, the CPI increased by 2.3%, 1.6%, and 2.1%, respectively. Over that same period, the spread between the 30-year conventional mortgage rate and the inflation rate remained constant at 530 basis points (5.3 percentage points) each year. Increasing inflation puts upward pressure on interest rates, especially at the long end of the market as investors attempt to capture stable real returns. Thus, current FOMC actions to contain inflation by moving short-term interest rates higher may have the effect of moving long-term rates lower and, in the longer term, keeping expansion alive.

Inflation forecasts are being revised upward for 2000. The Federal Reserve Bank of Philadelphia's *Survey of Professional Forecasters*, taken in February and again in May 2000, show that survey participants raised their 2000 inflation (CPI) expectations from 2.5% to 3.1%. The National Association for Business Economics' Outlook, February and May 2000 surveys show a similar pattern where participants raised their 2000 inflation outlook from 2.5% to 3.0%. Higher inflation forecasts reflect the belief that tight U.S. labor markets will generate wage inflation as the economy continues to grow rapidly despite the previous five FOMC interest rate increases. For the first quarter, the U.S. economy grew at a 5.5% annual rate -- following growth at a 7.3% in 1999:Q4. These growth rates are considerably stronger than what the FOMC would like to see -- presumably growth in the 3.0-3.5% range. Strong growth and low unemployment has pushed up wage rates, with the most recent data showing average hourly earnings increasing at 3.8% annual rate. Aside from the strong U.S. economy, most of the Asian economies, after faltering in the summer/fall of 1998, are rebounding and Japan, after six years of no growth, has finally turned the corner. These factors, along with higher oil prices, will contribute to rising inflation.



CONSUMER SPENDING



Despite rising interest rates, **real personal consumption expenditures** continued to show strong gains in 2000:Q1 and into the second quarter. Fueled by increasing employment, rising wages, strong personal income growth, and a high level of consumer confidence, personal consumption expenditures rose at a 7.7% real annual rate in the first quarter of 2000 and by nearly six percent on a year-over-year basis. Reflecting the economy's stellar first quarter performance, mostly driven by consumer spending which accounts for around two thirds of all economic activity, economists have been raising their growth expectations for 2000. Now, many forecasters expect the economy to grow faster in 2000 than it did in the previous three years, when real growth exceeded four percent annually.

In June, the U.S. unemployment rate fell slightly by 0.1 percentage points to 4.0% -- just off a 30-year low set in April at 3.9%. June's employment report showed an advance of only 11,000 jobs -- an increase in private sector hiring of 206,000 jobs, more than offsetting reduced government payrolls of 195,000 due to Census related job losses.

With jobs abundant and income levels rising, consumer confidence remains strong but off the record level set in January and May 2000. The **Index of Consumer Confidence*** set a record in January but slipped slightly in February and March, recovered slightly in April, rebounded convincingly in May, and fell again in June. Despite the June slippage, U. S. consumers remain upbeat in their outlook for the economy in spite of recent stock market volatility and interest rate increases by the Federal Reserve. According to the Conference Board, the private group that publishes the Index of Consumer Confidence, "volatile financial markets and interest-rate hikes are not expected to have a significant impact on consumers' spirits" (through the summer).

The Consumer Confidence Index in June stood at 138.8 in June, just shy of the January/May 2000 record of 144.7 (1985 = 100). Prior to January 2000, the previous high for the index was in October 1968 near the conclusion of the longest U.S. economic expansion at that time (February 1961 until December 1969). However, March 2000 marked a new record (107 months) for longevity for a U. S. economic expansion. Times are good and the consumer is voicing a vote of confidence as the **present situation index** in June had a reading of 180.2, only slightly off May's 2000 record of 183.6. However, the **expectations index**, a gauge for business conditions six month hence, slid by over 7 points in June. The percentage of respondents expecting to buy a new automobile or home over the next six months fell as consumers were weighing the impact of high gasoline prices on their consumption decisions and employment prospects. From the consumer perspective, the economy's present prospects look bright, but there is a slightly diminished outlook. Regardless, consumers can be fickle and can turn negative in a short period of time as they did in the late 1960's and early 1990's.

Given the economy's impressive first quarter performance, most economic forecasters are raising their forecasts for Real Gross Domestic Product (GDP), the broadest gauge measuring U.S. economic output originating from within U.S. borders. In February, consensus GDP forecasts from the National Association for Business Economics and Federal Reserve Bank of Philadelphia were indicating that real GDP will expand by under four percent in 2000.

* This particular gauge is important in evaluating the economy's future since consumer spending accounts for about two-thirds of overall economic activity. The more confident the consumer, the more likely they will continue to spend and propel the economy forward.

(Real GDP expanded by four percent or more over the last three years. In 1999, GDP increased by 4.2% and, for 1998 and 1997, 4.3% -- a remarkable achievement at this stage of the economic cycle.) But with first quarter 2000 GDP up at a 5.5% annual rate, following a 7.3% and 5.7% growth rate in 1999:Q4 and 1999:Q3, respectively, economists have raised their 2000 GDP growth forecast to near five percent. This rate of growth will likely foster new job creation above labor force expansion, thus potentially pushing the year-over-year unemployment rate down further and adding to already existing wage pressures. While growth projections for 2000 are being revised upward, projections for 2001 are being revised downward to three percent or below. This sharp fall-off in the economy's rate of growth could potentially impact County's revenue prospects late in FY 2001 and FY 2002.

REVENUE REPORT



FY 2000 SUMMARY: At the end of May, FY 2000 General Fund revenue totaled \$1,010 million, up \$48.9 million or 5.1%, above last year's comparable year-to-date collections. Generally, revenues were up across the board and solid increases in both property and income tax revenue, the County's two largest revenue sources, accounted for around three quarters of the revenue growth over FY 1999 collections. Through May 2000, \$515.9 million in property tax revenue and \$311.0 million in income tax revenue were collected, representing growth of 4.0% and 5.4%, respectively, over last year's levels. Combined "sales tax" revenues were up by 4.5% and "all other" revenues were up by 10.7%, mostly reflecting strong intergovernmental revenues. The County's positive revenue performance through May reflects a growing local economy with a strong construction/housing market, as well as solid employment and income gains.

Current General Fund revenue for FY 2000 is projected to total \$1,145.2 million, an increase of 4.6% over FY 1999, but the slowest overall revenue growth since FY 1996. If FY 2000 General Fund revenues materialize as projected, the County's surplus at the end of FY 2000 will total \$141.2 million, \$69.4 million in undesignated surplus, \$37.2 million in surplus designated for FY 2001 operations, and \$34.6 million in the Revenue Stabilization Reserve Account. This surplus estimate would be \$56.0 million above the original budget projection and \$10.4 million above the revised budget projection.

FY 2000 General Fund Revenue Projection (Millions of Dollars)

| | 2000 Adopted Budget | June 2000 | Difference |
|----------------|------------------------|------------|------------|
| | | | \$ |
| Property Taxes | \$ 505 | \$ 516 | \$ 11 |
| Income Taxes | 390 | 412 | 22 |
| All Other | <u>204</u> | <u>217</u> | <u>13</u> |
| Total | \$ 1,099 | \$ 1,145 | \$ 46 |

FY 2001 SUMMARY: Total County General Fund revenue for FY 2001 is projected to total \$1,177.1 million, up \$31.9 million or 2.8%, over the FY 2000 projected level. This revenue estimate is \$11.6 million above the FY 2001 Budget estimate. Assuming that the revenue estimate is realized and that there are no additional supplementary appropriations, at the end of FY 2001, the County's total surplus is estimated at \$104.0 million -- \$67.6 million in undesignated surplus and \$36.4 million in the Revenue Stabilization Reserve Account. This surplus estimate is \$18.2 million above the FY 2001 Budget projection.

Property Taxes: Property tax revenue is expected to rise by 4.4% in FY 2000, and by a more modest 2.9% in FY 2001, to a level of \$531.0 million. This projection for a near 3% rise in property tax revenue in FY 2001 is consistent with recent history and based on several factors including: trends in County property tax collections, County property valuation estimates from the State Department of Assessments and Taxation, and an expectation of strong but more moderate new construction activity, as well as additions, alterations and repairs. This property tax revenue estimate is \$5.6 million above the FY 2001 Budget estimate.

Over the last five fiscal years, FY 1996-2000, net property taxes in Baltimore County increased by an average of 3.5%. There is little reason to suspect that this pattern will be substantially altered since recent history often plays an important role in shaping near-term future events. Moreover, the Maryland Department of Assessments and Taxation is projecting that Baltimore County's net assessable tax base will increase by 3.6% in FY 2000. Since the property tax rate will remain unchanged, the change in property tax revenues should approximate the change in the net assessable tax base, with somewhat of a lag. Thus, recent history, projections from the State Department of Assessments and Taxation, and the solid pace of new construction and additions, alterations, and repairs in the County suggest that property tax revenue will again grow in line with recent past performances. Allowing for a margin of error and a slowing economy, a 2.9% rise in property tax revenue in FY 2001 seems likely.

Income Taxes: Income tax revenue is expected to rise by 5.7% in FY 2000, and by a more modest 4.4% in FY 2001 to a level of \$430.0 million. If the projected 4.4% increase in FY 2001 income tax revenue materializes, it will be the smallest growth rate since FY 1996. The current FY 2001 income tax revenue projection is based on recent trends in County income tax collections, expectations for a continued healthy, albeit slowing local, State and national economy, solid growth in County personal income of just under 5%, as well as modest employment gains for County residents of 1.5%.

Over the last five fiscal years, FY 1996-2000, income tax revenues in Baltimore County increased at an annual average rate of 7.8%. However, while income tax revenue increased each year over the FY 1996-2000 period, the growth rate was extremely uneven and ranged from a low of 2.2% in FY 1996 to a high of 15.3% in FY 1998. Expectations of a slowing in the income tax revenue growth rate are mostly based on uncertainty surrounding the strength of tax collections relating to capital gains, and income tax collection forecasts from both the State and selected neighboring counties. Additionally, slower income tax revenue projections reflect a scenario of slower economic growth that will likely materialize in late 2000 and 2001, due to Federal Reserve interest rate increases.

Given the recent strength in County resident job growth and underlying economic fundamentals, Baltimore County's personal income growth for FY 2001 should be just shy of 5% (this excludes any capital gains). A 5% rise in County resident personal income should equate to a nearly equal increase in income tax collections. However, year-to-year changes in personal income do not automatically equate to comparable changes in income tax revenue. Thus, it is forecasted that FY 2001 income tax revenues will grow by 4.4%, or by \$18.0 million, to \$430.0 million. The State expects personal income tax revenues to increase by 6.3% in FY 2001, while surrounding jurisdictions are forecasting the following rates of growth in personal income tax collections: Howard County, 8.0%; Anne Arundel County, 7.5%, Frederick, 6.4%; Carroll County, 5.7%; Harford County, 5.3%; and Prince George's County, 4.2%. The Baltimore County budgeted income tax revenue estimate is 3.8%.

While most of the surrounding counties and State of Maryland are forecasting stronger income tax revenue growth relative to Baltimore County, the County has been growing slower and has a higher unemployment rate than the State and surrounding jurisdictions. It is interesting to note, however, that an unusual divergence emerged in the seven jurisdictions surveyed, i.e., three counties (Harford, Prince George's and Anne Arundel) are forecasting stronger income tax revenue growth in FY 2001 versus FY 2000, three jurisdictions (Frederick and Carroll counties and the State) are forecasting a lower growth rate, and Howard county is projecting a constant growth rate. Thus, there is little consensus on the direction of income tax revenue collections.

Electricity Sales Tax: Eleven months of electricity tax collections generally account for about 79% of final collections (the first two months of revenues are accrued to the prior fiscal year). Through May 2000, electricity sales tax collections have totaled \$13.0 million, an increase of 3.1% over the prior year. For all of FY 2000, it is estimated that revenue generated from electricity sales will likely total \$16.5 million – \$200,000 above the estimate provided in the adopted FY 2000 budget.

For FY 2001, the Budget revenue estimate anticipates \$16.7 million in electricity sales tax revenue – electric utility deregulation has been factored into this projection. However, year-to-year fluctuations in total collections from this tax makes projections difficult since collections are heavily dependent on the electricity usage of a few large industrial customers.

Telephone Sales Tax: Eleven months of telephone sales tax collections generally account for about 74% of final collections since the first two months of revenues are accrued to the prior fiscal year. Through May 2000, telephone sales tax collections have totaled \$8.7 million, an increase of 2.7% over the prior year. For all of FY 2000, it is estimated that revenues generated from telephone sales will total \$11.7 million -- the estimate provided in the adopted FY 2000 budget.

For FY 2001, the Budget estimate anticipates \$11.8 million in revenues from this category, up around one percent from FY 2000.

Recordation Tax: A strong real estate market, driven by a robust economy and a low interest rate environment, stimulated recordation tax collections in both FY's 1999 and 2000. Through May 2000, recordation taxes have totaled \$14.8 million, up by 3.1% over the comparable FY 1999 level. For all of FY 2000, it is estimated that recordation tax revenues will total \$18.0 million -- \$1.8 million above the estimate provided in the FY 2000 adopted budget. (Eleven months of official receipts generally account for about 78% of final recordation collections).

For FY 2001, the Budget estimate anticipates recordation revenues of \$16.9 million -- 6.1% below FY 2000. However, this reduction in estimated revenues might be too modest due to a higher interest rate environment that will slow down new housing construction, the residential resale market, and the market for refinancing. It is estimated that FY 2001 recordation revenues will reach only \$16.5 million.

Title Transfer Tax: The strong real estate market is also driving transfer tax collections. Through May 2000, total transfer tax receipts were \$33.3 million, up 3.8% from last year's collections. For all of FY 2000, it is expected that title transfer tax revenue will total \$34 million -- \$3.6 million above the estimate provided in the budget.

For FY 2001, the budget estimate anticipates transfer tax revenues of \$33.3 million -- a small decrease over FY 2000 projected revenues. However, this expected decrease might again be too modest due to a higher interest rate environment and a slow down in overall economic activity. It is estimated that FY 2001 title transfer tax revenues will reach only \$32.5 million.

Investment Income: Through May, FY 2000 collections have totaled \$14.6 million, up 2.8% over a year ago. Reflecting recent trends in investment income, it is expected that investment income will total \$15.0 million for FY 2000 -- \$1.2 million above the budget estimate.

For FY 2001, the Budget estimate for investment income is \$14.2 million. However, reflecting lower surpluses to invest, even at higher interest rates, it is estimated that investment income in FY 2001 will total \$13.5 million.

Highway User Tax: FY 2000 payments to date are \$28.4 million, and eleven months distribution of this State shared revenue source generally reflects about 68% of final collections for a fiscal year. It is projected that highway user taxes for all of FY 2000 are likely to be \$35.2 million, or \$5.9 million above the original budget estimate of \$29.3 million. For FY 2001 the budget estimate for highway user taxes is \$33.2 million. It is estimated that revenues from this source, however, will total \$35.6 million, or \$2.4 million above the FY 2001 budget estimate.

TABLE 1
BALTIMORE COUNTY
GENERAL FUND REVENUES
(\$ Million)

| REVENUE SOURCE | ACTUAL FY 1998 | ACTUAL FY 1999 | FY 2000 BUDGET ESTIMATE | 00/99 % CHANGE | REVISED REVENUE ESTIMATE | 00/99 % CHANGE |
|--------------------------------|-------------------|-------------------|-------------------------------|----------------------|--------------------------------|----------------------|
| PROPERTY TAXES | <u>\$475.9</u> | <u>\$494.3</u> | <u>\$504.8</u> | <u>2.1%</u> | <u>\$516.0</u> | <u>4.4%</u> |
| INCOME TAX | <u>360.6</u> | <u>389.8</u> | <u>390.1</u> | <u>0.1%</u> | <u>412.0</u> | <u>5.7%</u> |
| SALES AND SERVICES | | | | | | |
| ELECTRICITY | 15.4 | 16.1 | 16.3 | 0.9% | 16.5 | 2.4% |
| TELEPHONE | 11.2 | 11.4 | 11.7 | 2.0% | 11.7 | 2.4% |
| RECORDATION | 18.1 | 18.9 | 16.2 | -14.1% | 18.0 | -4.6% |
| TITLE TRANSFER TAX | 30.0 | 33.5 | 30.4 | -9.2% | 34.0 | 1.5% |
| OTHER | <u>14.5</u> | <u>16.4</u> | <u>16.5</u> | <u>0.6%</u> | <u>17.5</u> | <u>6.7%</u> |
| TOTAL | 89.2 | 96.3 | 91.0 | -5.5% | 97.7 | 1.5% |
| LICENSES AND PERMITS | 4.0 | 4.0 | 4.1 | 3.3% | 3.9 | -2.0% |
| FINES, FORFEITURES & PENALTIES | 3.5 | 2.6 | 9.2 | 258.3% | 6.0 | 132.6% |
| INVESTMENT INCOME | 12.4 | 15.5 | 13.8 | -11.1% | 15.0 | -3.4% |
| INTERGOVERNMENTAL | | | | | | |
| STATE SHARED REVENUE | 30.6 | 34.7 | 30.7 | -11.5% | 36.5 | 5.1% |
| STATE GRANTS | 28.4 | 28.6 | 29.9 | 4.6% | 30.8 | 7.9% |
| FEDERAL GRANTS | <u>4.5</u> | <u>3.8</u> | <u>2.7</u> | <u>-29.9%</u> | <u>3.1</u> | <u>-18.9%</u> |
| TOTAL | 63.5 | 67.1 | 63.3 | -5.7% | 70.4 | 4.9% |
| SERVICE CHARGES/CRNT SVCS. | 6.6 | 6.5 | 7.0 | 7.2% | 7.0 | 7.3% |
| OTHER | <u>15.6</u> | <u>18.2</u> | <u>16.0</u> | <u>-11.7%</u> | <u>17.2</u> | <u>-5.4%</u> |
| TOTAL | <u>\$1,031.3</u> | <u>\$1,094.4</u> | <u>\$1,099.4</u> | <u>0.5%</u> | <u>\$1,145.2</u> | <u>4.6%</u> |

**TABLE 2
BALTIMORE COUNTY
FISCAL YEAR 2000
MONTHLY AND YEAR-TO-DATE
GENERAL FUND REVENUES**

MAY, 2000

| REVENUE SOURCE | A | B | C = B/A | D | E | F = E/D | G | H = E/G FY 00 Y-T-D % OF BUDGET ESTIMATE | I 10 YEAR AVG Y-T-D % OF TOTAL |
|---------------------------|--------------|---------------|----------|---------------|-----------------|----------|----------------------------|---|---|
| | MONTH OF MAY | | | YEAR-TO-DATE | | | FY 2000 REV. BUDG. EST. | | |
| | FY 1999 | FY 2000 | % CHANGE | FY 1999 | FY 2000 | % CHANGE | | | |
| PROPERTY TAXES | \$406,454 | \$941,923 | 131.7% | \$496,081,242 | \$515,931,108 | 4.0% | 512,271,370 | 100.7% | 100.4% |
| INCOME TAX | 73,413,952 | 80,298,968 | 9.4% | 295,219,544 | 311,029,717 | 5.4% | 408,768,078 | 76.1% | 75.7% |
| SALES-ELECTRICITY | 1,098,463 | 1,113,004 | 1.3% | 12,581,001 | 12,971,842 | 3.1% | 16,500,000 | 78.6% | 78.1% |
| SALES-TELEPHONE | 911,015 | 950,983 | 4.4% | 8,512,674 | 8,738,608 | 2.7% | 11,651,000 | 75.0% | 74.5% |
| SALES-RECORDATION | 1,538,384 | 1,436,028 | -6.7% | 14,320,617 | 14,763,215 | 3.1% | 18,750,000 | 78.7% | 75.9% |
| SALES-TITLE TRANSFER TAX | 2,858,193 | 2,884,966 | 0.9% | 28,916,682 | 29,834,497 | 3.2% | 35,000,000 | 85.2% | 86.3% |
| SALES-ADMISSIONS | 1,282,838 | 0 | -100.0% | 4,992,530 | 5,527,512 | 10.7% | 7,450,000 | 74.2% | 74.0% |
| SALES-TRAILER & 911 FEE | 1,934 | 776,526 | 40051.3% | 2,846,230 | 2,910,965 | 2.3% | 3,985,000 | 73.0% | 76.5% |
| SALES-MOTEL/HOTEL | 561,571 | 544,996 | -3.0% | 5,236,001 | 5,643,780 | 7.8% | 6,200,000 | 91.0% | 88.3% |
| INVESTMENTS | 1,625,385 | 1,593,743 | -1.9% | 14,179,439 | 14,237,511 | 0.4% | 15,343,650 | 92.8% | 91.4% |
| STATE SHARED-HIGHWAY USER | 3,519,515 | 8,105,723 | 130.3% | 22,764,710 | 28,407,212 | 24.8% | 36,500,000 | 77.8% | 68.4% |
| ALL OTHER REVENUES | 4,910,232 | 4,762,032 | -3.0% | 55,086,831 | 58,826,644 | 6.8% | 69,410,958 | 84.8% | NA |
| TOTAL REVENUES | \$92,127,936 | \$103,408,892 | 12.2% | \$960,737,501 | \$1,008,822,611 | 5.0% | \$1,141,830,056 | 88.4% | 87.4% |

A = COLLECTIONS FOR THE CURRENT MONTH, CY 1999 (FY 1999)

B = COLLECTIONS FOR THE CURRENT MONTH, CY 2000 (FY 2000)

C = PERCENT CHANGE IN COLLECTIONS, CURRENT MONTH, CY 2000 OVER CURRENT MONTH, CY 1999

D = FISCAL YEAR-TO-DATE COLLECTIONS AS OF CURRENT MONTH, CY 1999 (FY 1999)

E = FISCAL YEAR-TO-DATE COLLECTIONS AS OF CURRENT MONTH, CY 2000 (FY 2000)

F = PERCENT CHANGE IN COLLECTIONS, FY 2000 YEAR-TO-DATE AS OF CURRENT MONTH, CY 2000, OVER FY 1999 YEAR-TO-DATE AS OF CURRENT MONTH, CY 1999

G = FY 2000 BUDGET ESTIMATE PER EXECUTIVE'S FY 2001 SUBMITTED BUDGET (4/01)

H = FY 2000 YEAR-TO-DATE COLLECTIONS AS OF CURRENT MONTH, CY 2000, AS A PERCENT OF FY 2000 ESTIMATE

I = TEN YEAR AVERAGE OF YEAR-TO-DATE COLLECTIONS AS OF CURRENT MONTH OF EACH YEAR, AS A PERCENT OF FINAL COLLECTIONS

TABLE 3

FISCAL YEAR 1999 ACTUAL AND 2000 AND 2001 REVENUE FORECAST
(Millions of Dollars)

| <u>Revenue Source</u> | <u>Actual FY 1999</u> | <u>Estimated FY 2000</u> | <u>Forecast FY 2001</u> | <u>% Change</u> |
|-----------------------|---------------------------|------------------------------|-----------------------------|-----------------|
| Property Tax | \$494.3 | \$516.0 | \$531.0 | 2.9% |
| Income Tax | 389.8 | 412.0 | 430.0 | 4.4% |
| All Other | 210.3 | 217.2 | 216.1 | -0.5% |
| | <u>\$1,094.4</u> | <u>\$1,145.2</u> | <u>\$1,177.1</u> | <u>2.8%</u> |